

USAID/Uzbekistan

Annual Report

FY 2005

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Please Note:

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Uzbekistan

Performance:

BACKGROUND: While Uzbekistan remains a strategic partner of the United States in the global war on terrorism, strains developed in the relationship in 2004. Freedom House ratings remained the same very low level in electoral process (6.75); civil society (6.5); independent media (6.75); governance (6.25); and constitutional, legislative, and judicial framework (6.5). [Note: 7 is the worst score.] Following the “Rose Revolution” in Georgia, Uzbekistan implemented new registration and monitoring requirements for international technical assistance organizations in an effort to control their activities and prevent a similar scenario in Uzbekistan. Organizations working to develop democratic principles and rule of law have been affected to the greatest extent. Bureaucratic obstacles and the subsequent refusal to re-register the Open Society Institute, along with the Government’s failure to register any true opposition political parties in advance of the December 2004 parliamentary elections and stagnation in economic reforms resulted in the Secretary of State not certifying Uzbekistan as required by Section 568 of the Foreign Assistance Act. As a result of non-certification, FY 2004 assistance to Uzbekistan was reduced by approximately \$18 million, including some USAID assistance targeted at the central government. Since non-certification took effect, Uzbekistan has made some very positive dramatic steps in the human rights arena. Specifically, due to USAID programs, dialogue opened between the Ministry of Interior and human rights defenders. And, the Government invited Freedom House, Human Rights Watch, and the U.S. Embassy to participate in an investigation into a death-in-custody.

Uzbekistan’s economic health is tenuous at best, with its GDI tumbling to 0.5% and GDP holding steady at about 4.4% for 2003. In addition, the Government has increased custom’s tariffs by as much as 90% and instituted increased restrictions on wholesale and retail trade in fear of international competition. Also, in fear of unrestricted trade, the Government is making it difficult, if not impossible, for citizens to cross borders. Furthermore, unprecedented restrictions on cash in circulation, while having the effect of stabilizing the currency, has nearly crippled the informal trade sector and severely restricted the formal trade sector. The most recent round of excessive import controls led to public outbreaks of unrest between traders and government officials.

The development of civil society and democracy strengthening programs are being overburdened with new bureaucratic procedures for registration of international NGOs and with highly restrictive banking control measures for grants to local organizations. This has resulted in significant delays in approving grants to local NGOs and Civil Society Support Centers that are responsible for implementing regional programs. On the other hand, working with the Government on human rights programs has been promising. In 2004, the Government implemented an action plan developed in response to the recommendations of a U.N. Rapporteur on Torture (2003) and actively sought international assistance in this area. Also, while Trafficking in Persons issues seemed to be making little headway in 2003, recent Government actions have been very positive.

Uzbekistan’s population of about 26 million is expected to double over the next 50 years. Current growth rates of about 2.8% remain unchanged. The result of this growth will be even greater demand on social services, especially in the health and education sectors. Tuberculosis (TB) cure rates remain low, and infectious diseases impact a significant percentage of the population. Infant mortality remains high by international standards due to inadequate nutrition, acute respiratory diseases, and diarrhea. HIV infection rates among groups practicing high-risk behavior are still increasing and may be as high as 30% in the injecting drug user population. The education sector remains severely under-funded. Teacher salaries and educational facilities and materials are not close to meeting minimal international standard. Low salaries force health care providers and teachers to establish informal payment systems that change treatment and education priorities from a need-based to a payment-based response system.

U.S. INTERESTS AND GOALS: As the most populace country in Central Asia, and one which historically has played a leading role in trade, enterprise, and culture, Uzbekistan's development is critical for the region. Uzbekistan enjoys a unique geographical position as the only country contiguous with all Central Asian countries and located on the Afghan border. With the global war on terrorism continuing, the United States' strategic partnership with the Government of Uzbekistan (GOU) remains a cornerstone of U.S. national interest. USAID, as part of the USG's engagement strategy, continues to encourage Uzbekistan to achieve key development objectives in the areas of economic liberalization, political pluralism, improved natural resources management, health, education, and regional stability.

DONOR RELATIONS: USAID, the largest bilateral donor in Uzbekistan in 2004, is unique in that it is involved in nearly every sector. USAID works with the Asian Development Bank (ADB) and the U.N. Children's Fund on education; ADB on credit union development, maternal and child health care, and energy issues; the World Bank on agricultural and education initiatives and primary health care reform; the European Union on World Trade Organization (WTO) accession issues; the World Health Organization (WHO), German KfW Development Bank, and UNAIDS on TB and HIV/AIDS; and the German Development Service in conflict prevention programs. The Global Fund to Fight AIDS, Tuberculosis, and Malaria also provides funding for disease control and treatment.

CHALLENGES: Restrictions on cross-border trade have most directly affected the average citizen, through a visible rise in prices of imported goods and limitation of access to a wide selection of commodities. Corruption is endemic and is fueled by low wages (school teachers and doctors average \$20/month), long delays (3-4 months) in receipt of salaries and pensions, and glaring shortages of gasoline, electricity, and natural gas for heating hospitals, schools, and houses in winter. Against this background is the unsettling picture of high levels of unemployed youth (estimated levels as high as 30%) vulnerable to recruitment by extremist groups. Recent agricultural and economic reforms are promising, but change is progressing slowly. New registration and monitoring requirements for international technical assistance organizations, along with vetting requirements for subgrants to Uzbek NGOs, are intended to restrict the development of a vibrant civil society, political pluralism, and an independent media. While these requirements have made it more difficult for many organizations to work in Uzbekistan, significant results have been achieved in some areas, especially in human rights.

KEY ACHIEVEMENTS: In FY 2004, USAID's assistance program to Uzbekistan continued to encourage democratic reform, market transition, and improvement in the quality and access to health and education services. Important achievements were made in financial intermediation, conflict prevention, health care reform, human rights, trafficking in persons, and natural resource management.

ENVIRONMENT FOR SMALL AND MEDIUM ENTERPRISES: Corruption, high barriers to credit, and an unstable taxation policy compounded by frequent changes in legislation governing taxation have made it difficult for small and medium enterprises (SMEs) to operate in Uzbekistan. Recently, banks have reduced cash payments, forcing SMEs to pay by bank transfers and increasing overall costs. Despite these challenges to Uzbek businesses, USAID's Enterprise Development Project has been able to assist 102 SMEs to achieve success. For clients receiving business advisory services, these successes include a 43% increase in sales, and a productivity increase of 39%. In addition, the project has facilitated 65 trade deals with a total value of over \$10.1 million. Credit unions continue to grow and become stronger. Illustrative of this, membership growth has exceeded expectations and is now reaching about 10,000 members, about 50% women; asset growth for FY 2004 reached 280% of the starting base capital; the loan portfolio grew by about 300%; and the loan repayment rate remains at a steady 95%. The loan portfolio has diversified from traditional micro-traders, producers, and services to greenhouse producers, cattle breeders, and fruit producers. This growth and expansion has made certain elements of the portfolio nearly self-sufficient.

There has been tangible progress in trade and investment matters. In an attempt to reinforce the Government's interest in expanding exports, USAID has continued assistance with WTO accession. The Government has established a "Small Council" as a systematic structure to work specifically with the WTO on trade matters. A Legislative Action Plan was completed by the Council, and along with a

productive WTO Working Party meeting in June 2004, a strong foundation has been laid for tackling a broad range of technical issues and trade barriers. Business development, through training and advisory services, has resulted in a 25% increase in sales and services to over 150 SMEs in both Ferghana City and Tashkent. While the regional impact of the increased sales is under study, there is no doubt that regional trade exhibitions have resulted in much needed increased trade.

STRENGTHENED DEMOCRATIC CULTURE AND INSTITUTIONS: USAID's democracy efforts in Uzbekistan seek to develop sustainable civic organizations, increase public access to information, promote citizen participation in government, and create transparent and accountable institutions. Despite the challenges and obstacles confronting human rights activists, journalists, opposition figures, and NGO leaders, there was significant progress in human rights and trafficking in persons.

USAID's human rights program exceeded expectations in FY 2004. For the first time, human rights defenders, including representatives of unregistered organizations, began to meet with representatives of the Ministry of Internal Affairs and the National Security Service to discuss human rights abuses (in particular, during pre-trial detention). In an unprecedented step, the Government invited Freedom House, Human Rights Watch, and the U.S. Embassy to participate in an investigation into a death-in-custody. Uzbek human rights defenders also gained access to two other such investigations. Professionalization of organizations that work on human rights issues is proceeding through Freedom House trainings. Freedom House opened a second branch in Samarkand to complement the Tashkent and Namangan offices.

In cooperation with the State Department's Bureau of Democracy, Human Rights, and Labor (DRL), USAID is supporting two legal clinics in Central Asia dedicated to human rights at Tashkent State Law Institute and Andijan State University. Law students, under the direct supervision of licensed attorneys, provided legal consultations to citizens in safeguarding and enforcing their fundamental rights such as freedom of speech and freedom of movement. In conjunction with DRL, USAID supports human rights resource centers in Tashkent and Namangan, which provide an environment where human rights defenders and political activists are able to work more openly.

USAID's assistance on housing reforms helps condominium owners for the first time to democratically and transparently develop maintenance and repair plans for common property areas. As a result of this assistance, the Ministry of Justice approved new procedures for financing reconstruction and renovation of internal infrastructure and common areas in multi-unit buildings built before 1991. These are successful attempts to improve quality of life while putting in place strong democratic, grass-roots organizations.

INCREASED ACCESS TO QUALITY HEALTH CARE: Uzbekistan continues national expansion of rural primary health care (PHC) reforms and has made serious strides in addressing its burden of infectious diseases, including HIV/AIDS and TB. Visits to PHC clinics continued to increase and more people were served by clinics meeting minimum quality standards. Additionally, a larger share of health expenditures went toward PHC. Baseline results for TB cure rates show there is room for improvement, but the foundations for increased cures are being built as minimum standards scores for labs exceeded targets, though facilities' scores were slightly below target. The HIV surveillance system has begun to operate and continues to be expanded. Quality improvement efforts have led to the development of the country's first evidence-based practical guidelines. At the same time, health NGOs face a difficult policy environment, with financial operations being severely restricted.

USAID continues to implement its expanded health programs in maternal and child health, reproductive health, drug demand reduction, and community-based health activities. Health Examination Survey results show that a large proportion of the adult population suffers from chronic cardio-vascular disease and that the country's children face significant risks of contracting acute respiratory illnesses. Large humanitarian assistance shipments of pharmaceutical and medical supplies valued at approximately \$60 million were delivered in 2004.

EDUCATION: Uzbekistan's education sector has continued to deteriorate since independence due to a

lack of resources. Since 2003, USAID has embarked on a program of in-service teacher training, developing educational materials, promoting parent and community involvement in education, and rehabilitating needy schools. Results to date are very encouraging. In the past 18 months, over 600 educators in 68 schools have been trained in critical thinking methodology and 100 school teachers trained in school improvement methodology. Additionally, during 2004, USAID invested in training and capacity building of nine Professional Development Schools, which were identified across the country as having the potential to disseminate modern interactive pedagogy and management practices to surrounding schools. The partnership building program between schools, parents, and local communities continues to grow. During the past year, over 380 people were trained in basic education courses, resulting in 21 Community Education Committees and 16 children's clubs being established by local communities. In addition, local communities have provided about 20% of the renovation cost for 18 local schools.

IMPROVED MANAGEMENT OF NATURAL RESOURCES: With more than 63% of the population living in rural areas, some form of agricultural production provides the bulk of the income for rural families. Latest statistics confirm that Uzbekistan consumes about 65% of all water used in Central Asia, most of which is used for inefficient irrigation management which impacts nearly 80% of all cultivated lands in Uzbekistan. USAID's assistance is focused on improving management of water resources.

Although the Government continues to keep a tight grip over the agricultural sector, they have made significant reforms in the water sector, as related to production irrigation. USAID's activities are designed to establish and build the capacity of local water management organizations and staff through training and policy reform. Although the water user organizations are still young, they are taking a more active role in local water management. Presently, about 200 organizations are controlling water use on approximately 400,000 hectares of irrigated cropland. The Natural Resources Management Program established six pilot projects establishing water users associations on 13,000 hectares of cropland. Activities in this sector support the Presidential Initiative Water for the Poor. Cooperation between the Government, USAID, and the U.S. Department of Agriculture (USDA) strengthened joint programming of local currencies from USDA food aid to promote agricultural reforms. USAID drafted and helped negotiate a power trade agreement between the governments of Uzbekistan and Tajikistan; when signed, it will allow nearly \$200 million in ADB funding for electricity grid upgrading.

CONFLICT VULNERABILITY/MITIGATION: The risk of widespread, violent conflict remains relatively low in Uzbekistan. However, two sets of recent terrorist attacks in Tashkent and Bukhara in 2004, including attacks on the U.S. and Israeli embassies, point to an increased likelihood of continued low level instability for the foreseeable future. Unemployment, particularly among the youth, poor community infrastructure, weak educational and health facilities, lack of political freedom, and human rights abuses continue to contribute to the potential unrest. Restrictions on trade, which result in higher prices for fewer goods, and heavy-handed attempts by the Government to impose tax collection on private traders, further exacerbate tensions as average citizens find it increasingly difficult to legally earn a subsistence income. There have been recent instances of trader clashes with government officials trying to impose new, stricter import regulations. The possibility of continued tension over import restrictions remains a grave concern of the U.S. Mission. Public demonstrations, albeit largely small and peaceful, have become more common than they once were in Uzbekistan and could reflect an increased level of desperation, resulting in a willingness to risk Government retaliation for opposition activity. Regular seasonal shortages of gasoline, natural gas for heating, and electricity could impact on the character of the demonstrations as winter sets in. The GOU efforts to prevent religious extremism have had the effect of hindering open religious expression and remain a significant source of tension between the GOU and the population.

USAID's conflict prevention activities focused on the Ferghana Valley and southern Uzbekistan, where high levels of unemployment, large disparities in wealth distribution, and ethnic groups vying for access to limited resources have created a tense environment. These programs are designed to mobilize communities by providing grants for small-scale infrastructure and social projects identified and supported by the community through a democratic process that engages local authorities. An equally important objective of these programs is to alleviate the underlying sources of conflict by promoting inter-ethnic

cooperation, economic development, and rehabilitation of social infrastructure. In total, 458 infrastructure and social projects were carried out during FY 2004, benefiting more than one million residents in Uzbekistan. A key strategy in Uzbekistan has been to incorporate a youth strategy in all of the communities where USAID is working. Youth have been active in the implementation of projects and 58% of the projects have a youth or young person focus.

GENDER: Gender is an integral part of USAID's program. For example, primary health care activities helped to improve services tailored to the specific needs of men and women, and NGOs provide counseling, job training, and accommodation to victims of domestic abuse, self-immolation (setting oneself on fire), and trafficking. Also, in FY 2004, over 3,700 Uzbeks were trained in various USAID-supported training programs, of which approximately 50% were women. Training focused on microfinance, credit unions, mass media, law, NGO development, drug demand reduction, health care, and water management.

TRADE CAPACITY BUILDING: USAID supports trade capacity building in Uzbekistan through accounting reform, regional trade promotion, and assistance to bring various regulations into compliance with WTO standards.

Results Framework

- 122-0110 Privatization**
- 122-0120 Fiscal Policy and Management**
- 122-0130 Private Enterprise Growth**
- 122-0131 An Improved Environment for the Growth of Small and Medium Enterprises**

SO Level Indicator(s):

Business Environment Index

IR 1.3.1 Increased Opportunities to Acquire Business Information, Knowledge, and Skills

IR 1.3.2 More Responsive Financial Institutions, Instruments, and Markets

IR 1.3.3 Increased Implementation of Laws and Regulations

- 122-0140 Financial Sector**
- 122-0150 Energy**
- 122-0160 Environmental Management**
- 122-0161 Improved Management of Critical Natural Resources, Including Energy**

SO Level Indicator(s):

Number of Demonstration Models Replicated in the Central Asia Region

IR 1.6.1 Increased Management Capacity in Natural Resource Sector

IR 1.6.2 Improved Policy and Regulatory Framework

IR 1.6.3 Sustainable Models Developed for Integrated Natural Resources Management

IR 1.6.4 Public Commitment Established for Natural Resources Management Policies

- 122-0210 Citizen Participation**
- 122-0211 Strengthened Democratic Culture Among Citizens and Target Institutions**

SO Level Indicator(s):

Percent of Targeted Population Exhibiting Civic Consciousness and Activism

IR 2.1.1 Stronger and More Sustainable Civic Organizations

IR 2.1.2 Increased Availability of Information on Civic Rights and Domestic Public Issues

IR 2.1.3 Enhanced Opportunities for Citizen Participation in Governance

IR 2.1.4 More Effective, Responsive, and Accountable Government Institutions

- 122-0240 Conflict Mitigation**

SO Level Indicator(s):

Communities Contribute Growing Costs Toward Projects

Number of Projects Implemented Without Donor Support

Percent of Communities Reporting Lessened Tension or Resolved Conflicts

IR 2.4.1 Strengthened Community Participation

IR 2.4.2 Improved Local Services Through Community Decisions

- 122-0310 Humanitarian**
- 122-0320 Increased Utilization of Quality Primary Health Care for Select Populations**

SO Level Indicator(s):

Percent of New Smear Positive Pulmonary TB Cases Registered in a Specified Period that were Successfully Treated through the Directly Observed Treatment Short-Course (DOTS) Strategy

Percent of Total Outpatient Visits that Occurred in Primary Health Care Clinics in Pilot Sites

IR 3.2.1 Select Populations are Better Informed about Personal Health Care Rights and Responsibilities

IR 3.2.2 Improved Quality of Health Care including Infectious Diseases and Maternal and Child Health

IR 3.2.3 Improved Use of Health Care Resources for Primary Health Care

IR 3.2.4 Improved Legislative, Regulatory and Policy Framework

- 122-0330 Environmental Health**
- 122-0340 Improved Quality and Access to Basic Education in Target Areas**

SO Level Indicator(s):

Number of Children Benefitting from USAID Basic Education Programs

Percent of Parents Satisfied with Quality of Education in Target Areas

IR 3.4.1 Improved Quality and Access to In-Service Teacher Education in Target Areas

IR 3.4.2 Increased Parent and Community Involvement in Target Areas

IR 3.4.3 Strengthened Institutional, Management, and Technical Capacity in the Education System

122-0410 Special Initiatives

122-0420 Cross-Cutting Programs

122-042T Emergency Response Fund - FSA/NIS